

DEPARTMENT OF TRANSPORTATION
STATEMENT OF MARITIME ADMINISTRATOR
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BEFORE THE
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
UNITED STATES SENATE
ON S. 2390, FREEDOM TO TRANSPORT ACT OF 1998
SEPTEMBER 15, 1998

Mr. Chairman and members of the Committee:

I welcome the opportunity to be with you here today, at this oversight hearing on the Jones Act and more specifically, S. 2390, the Freedom to Transport Act of 1998. This is the first opportunity I have had to appear before the Committee since becoming Maritime Administrator on August 6th, 1998. I trust this will be the first of many appearances discussing with you the importance of maritime transportation in our national and international transportation system.

At the start, I would like to stress that the Administration supports the Jones Act as an essential element of our Nation's maritime policy. Our need to maintain domestic shipping and an industrial shipbuilding base for national defense purposes and economic security must be a priority. The requirement that U.S.-flag vessels be U.S.-built, U.S.-crewed and U.S.-citizen owned ensures the continuation of a domestic merchant marine and a shipbuilding industry. It also ensures the availability of U.S. vessels and merchant mariners to crew for our Ready Reserve Force (RRF) and Department of Defense strategic sealift ships in times of national emergency.

I would also like to note that cabotage, or the reservation of a nation's coastwise trade exclusively

for that nation's own vessels, is common among the maritime nations of the world. Most maritime nations maintain cabotage in some form such as domestic ownership and crewing requirements. Those countries that do not have domestic build requirements generally have some form of domestic fleet subsidies or shipbuilding subsidies. The Jones Act fleet receives no subsidies.

Transportation services offered to domestic shippers are vast. Nevertheless, the Maritime Administration (MARAD) is acutely aware of the importance of ensuring that our nation's transportation system is efficient and responsive to the concerns of all shippers. In a typical year, domestic waterborne shipping in the United States moves 24 per cent of U.S. intercity cargo on a ton mile basis for less than two percent of the freight bill. It provides an estimated 124,000 direct jobs that produce \$1.7 billion in federal and state tax revenue on wages and corporate income and generates \$10 billion in annual freight revenue.

There are three major trade areas covered by the Jones Act -- domestic ocean service, Great Lakes and the inland waterways. There are over 41,000 U.S.-flag vessels in "Jones Act" service to the United States, representing some \$26 billion in private U.S. investment and carrying over 1 billion tons of commercial cargo annually.

By far the largest of the domestic markets fostered by the Jones Act is the service to America's heartland -- specifically, the inland waterway barge network which includes shipments on the Mississippi River System and the intracoastal and navigable internal waterways of the Atlantic, Gulf and Pacific Coasts. The inland fleet totals over 33,000 vessels. Over 700 million short tons of freight moved on the nation's inland waterways in 1996. Of this cargo, the principal commodities carried were coal, oil products, and food and farm products, all bulk cargo.

The Army Corps of Engineers estimates that there are over 7,000 vessels qualified for coastwise ocean operation, including 165 self-propelled vessels, as well as tugs, barges and integrated tug/barge units. This does not even include fishing and excursion vessels, general ferries and dredges. While 75 percent of the coastwise trade is in Alaskan crude oil and petroleum products, large numbers of containers are shipped in domestic coastwise markets including containerized forest products and livestock. Domestic carriers have instituted new and expanded operations on both the Atlantic and Pacific coasts in response to the needs of shippers for increased waterborne transportation services.

The Great Lakes is also a thriving U.S.-flag shipping market, moving fuel for inland electrical utilities and bulk commodities such as iron ore, coal and limestone for use in the production of steel. Although the smallest of the three Jones Act trades, the Great Lakes fleet moves 110 to 120 million short tons of cargo during a typical shipping season -- almost 1,000 pounds for every American.

Obviously, the Jones Act fleet plays a significant role in our domestic economy. The debate over U.S. cabotage laws, however, is not solely an issue of economics and transportation. The U.S. ownership and build requirements for participation in coastwise trade are also critical to national security. By serving commercial interests during peacetime, American shipbuilders and ship repairers are able to ensure that a domestic shipbuilding base is in place during times of national emergency. The importance of the Jones Act, including its U.S.-build requirements, has been consistently supported by those who are most familiar with its implications for national security. Assistant Secretary of the Navy John Douglas stated in a letter to the Chairman of the Subcommittee on Surface Transportation and Merchant Marine, the

Honorable Kay Bailey Hutchison, that the Navy strongly supports the Jones Act and opposes any changes in the law. In addition the former Commander in Chief of the United States Transportation Command, General Walter Kross, and the current Deputy Commander in Chief, Lieutenant General Roger Thompson have made it clear that they support the Jones Act unequivocally for providing the root structure to the strategic trans-oceanic sealift capabilities. During a military conflict, domestic carriers are part of the pipeline moving sealift cargoes from inland points to coastal ports for shipment to the theater of operations. In addition, domestic carriers continue to support the civilian economy and move the raw materials necessary to supply wartime production in the U.S. industrial base.

S. 2390, the Freedom to Transport Act of 1998, introduced by Senators Brownback and Helms, would make three significant changes to the Jones Act. It would eliminate the U.S.-build requirement for vessels of over 1,000 gross tons that carry bulk cargo in the coastwise trade. It would also relax current U.S. citizenship requirements for corporate owned vessels engaged in coastwise trade. Lastly, S. 2390 would allow foreign-built, foreign-owned vessels to register under the U.S.-flag, but then re-flag under a foreign registry at will. The Administration opposes each of these changes. If S. 2390 were enacted, U.S. vessel owners and operators would --virtually overnight-- find themselves in direct competition with cheaper, often subsidized, foreign-built, foreign-owned vessels, that have no long-term commitment to U.S. shippers or to U.S. national security interests.

Additionally, S. 2390 would have a broad impact because the bill applies to vessels over 1,000 gross tons carrying bulk cargo. However, the bill defines the term "bulk cargo" to mean cargo that is loaded and carried in bulk without mark or count. This broad definition encompasses not only certain agricultural and forest products, but could well include liquid bulk cargoes such as petroleum products.

Elimination of the U.S.-build requirement under S. 2390 would have a direct negative impact upon the U.S. shipbuilding and repair industries. An aggregate of more than 280 privately-owned facilities, the U.S. shipbuilding and repair industry includes small yards as well as some of the largest, most modern shipyards in the Western world. These facilities are located in more than 150 cities, in 30 states and Puerto Rico. From a national security perspective, it is important to note that while the Navy relies predominantly on the larger yards for ship construction, many of the smaller yards that do commercial work primarily for the Jones Act trade are also critical for the day to day maintenance and repair of naval and surge fleet vessels, like the RRF.

Moreover, the blow to the industry resulting from the elimination of the U.S.-build requirement would come at a time when American shipyards are experiencing their most productive period in the last two decades. The National Shipyard Association recently reported in a letter to the *Journal of Commerce* that the U.S. shipbuilding industry is currently building nine large tankers, numerous tank barges, 24 tug boats, 65 vessels for the offshore oil industry, dozens of passenger ferries, trailer barges, and more. Additionally, there are contracts pending for hundreds of other vessels including tankers, refrigerated (reefer) ships and ocean-going passenger vessels.

Elimination of the U.S.-build requirement could potentially shift work to foreign shipyards -- many of which are government subsidized. These ensuing losses to the shipbuilding industry could affect the U.S. economy far beyond the shipbuilders themselves. Suppliers, insurers and small businesses that rely on shipyards for their own business could suffer greatly. The potential loss of thousands of shipbuilding, ship repair and related jobs could also negatively affect state and federal tax revenues.

S. 2390 would also change the current law that a vessel engaged in coastwise trade meet the 75 per cent U.S. ownership requirement, potentially resulting in an uneven playing field within the coastwise trade market. Foreign-owned corporations -- operating foreign-built vessels with lower construction costs -- would be allowed to enter the Jones Act trade. U.S. citizen-owned,

U.S.-built vessels would be forced to compete directly with cheaper, subsidized, foreign-built and foreign-owned vessels. Moreover, S. 2390 would allow foreign owners to transfer foreign-built vessels used in the U.S. coastwise trade back to foreign registry without U.S. Government approval. Foreign-built vessels could enter and exit the U.S. market at will, depending on market conditions at any given time, without regard to the needs of U.S. shippers or U.S. national security interests. Furthermore, the importance of U.S. ownership and Government access to vessels during times of national emergency is underscored by the fact that ships, like aircraft, are highly mobile assets and can be deployed anywhere in the world. During times when their presence is most critical to the national need, they would be subject to control by non-U.S. interests.

However, all of this said, I would like to stress that the Administration also recognizes the importance of providing a safe and reliable transportation system for forest products, livestock and agricultural products. And we are actively working toward that goal. This past July -- a national agricultural summit -- Department of Transportation (DOT) Secretary Rodney Slater and U.S. Agriculture Secretary Dan Glickman pledged that their departments would join forces to meet the transportation challenge facing farmers and rural Americans. Secretary Slater noted that American agriculture has built its reputation on being a reliable supplier, and that this reputation can only be maintained if our products get to market. In an increasingly global economy, agricultural producers must be able to compete by moving their commodities efficiently and cost-effectively. As a matter of fact, vast amounts of agricultural products, forest products, and livestock are transported every year by water. American towboats and barges carry over 89 million tons of grain annually, which generates \$27 billion in export earnings each year.

The agricultural summit culminated in the signing of a Memorandum of Understanding (MOU) to address long-term agricultural transportation and rural passenger and freight

mobility challenges. The Department of Agriculture (USDA) and DOT are creating a joint task force to share information between the two departments, identify critical mobility issues, consider joint research efforts, develop joint policy initiatives, and undertake outreach to users and providers of rural transportation services.

Additionally, a DOT Rural Transportation Initiative Working Group has already been formed and has begun an analysis of current transportation issues faced by agricultural and rural interests. We, at (MARAD), are actively involved in this working group and are committed to doing our part to help find solutions to current maritime transportation needs. I will be meeting with Deputy Secretary of Agriculture Dunn in just two days, on September 17, 1998, to discuss agricultural transportation.

In conclusion, the domestic maritime fleet plays a vital role in our nation's intermodal transportation system. The transportation services offered by the Jones Act fleet are efficient and competitive. The existence of our domestic fleet also provides national security benefits by allowing us to maintain a national fleet and a domestic shipbuilding and ship repair industry subject to national control and available in times of need. The elimination of the Jones Act build and ownership requirements would have a significant and lasting negative effect upon the domestic maritime industry as a whole. The Department of Transportation strongly supports the Jones Act and is further committed to meeting the needs of all American shippers.

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